



# Building Value in Your SOX Compliance Program

Highlights from Protiviti's  
2013 Sarbanes-Oxley Compliance Survey

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THE MOST DAMAGING PHRASE IN THE LANGUAGE IS: “IT’S ALWAYS BEEN DONE THAT WAY.”

— GRACE HOPPER, U.S. NAVY REAR ADMIRAL AND COMPUTER SCIENTIST

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## INTRODUCTION

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As the Sarbanes-Oxley Act (SOX) enters its second decade (and Section 404 nears the end of its first decade), organizations with the most effective and efficient compliance capabilities are learning from the past, rather than repeating it. In fact, despite its relative maturity, SOX continues to pose new challenges for public companies. Recent emerging challenges include:

- Public Company Accounting Oversight Board (PCAOB) inspections of public accounting firms are influencing how external auditors examine the effectiveness of their clients’ internal control over financial reporting.
- The updated Internal Control – Integrated Framework from the Committee of Sponsoring Organizations of the Treadway Commission (COSO) is slated for issuance in mid-May and may require companies to make refinements to how they assure strong and effective internal controls.

In addition to these regulatory- and standard-driven changes, a disjointed economic recovery along with familiar business disruptions (mergers, acquisitions, restructuring, etc.) also create the need for continuous updates, recalibrations and improvements to existing SOX compliance capabilities.

Key findings from Protiviti’s *2013 Sarbanes-Oxley Compliance Survey* reveal that the best compliance efforts remain spry and seek to build value as well as increase effectiveness.

- More companies are adjusting their compliance efforts to focus on high-risk processes and walkthroughs.
- External auditor reliance on these efforts, and on the work of others in general, continues to evolve, due in part to guidance from the PCAOB.
- More companies are shifting SOX compliance oversight responsibilities away from project management offices (PMOs) to internal audit functions.
- SOX compliance costs are rising, as are external audit fees. However, for most organizations the cost of SOX compliance remains at a manageable level.
- Organizations continue to report significant improvements in their internal control structures since SOX Section 404(b) became a requirement.
- The automation of controls remains an enticing option and perhaps the “final frontier” for achieving significant improvements and efficiencies.

The intention of our study is to educate companies and help them avoid an “it’s always been done that way” mindset by identifying new and better ways to design and execute SOX compliance processes. Please note that this report is an **executive summary** of key results and takeaways from our survey. A more comprehensive presentation of all survey findings, including detailed breakdowns by filer status and company size, is available at [www.protiviti.com/SOXSurvey](http://www.protiviti.com/SOXSurvey).

As always, upon request, we would be pleased to provide customized reports based on the results of respondents from specific groups represented in our survey – company size, industry, SOX filing status, etc. For additional information or to request a customized report, please contact us. We also welcome any feedback on this study and the issues we cover.

In closing, we wish to express our sincere appreciation to the nearly 300 executives and professionals who took part in our survey. Their willingness to share their insights and their valuable time make this survey possible. We also are grateful for the continued positive response that this research project receives in the market. We look forward to the dialogue generated by the survey’s results and insights, as well as developments in the marketplace that will affect how organizations continue to approach and refine their processes toward achieving SOX compliance in a positive and constructive manner.

Protiviti  
May 2013

#### Notes:

This Executive Summary includes numerous breakdowns of the survey findings by company size, defined as follows:

Large = Companies with revenues of \$10 billion or greater

Midsized = Companies with revenues between \$100 million and \$10 billion\*

Small = Companies with revenues less than \$100 million

\* Upon request, Protiviti can provide additional reporting in this broad category.

## SUMMARY AND ANALYSIS OF RESULTS

### Notable Changes in SOX Compliance Processes

We asked our respondents about the degree of change in various SOX compliance processes in their organizations over the past year, and also asked them to designate the primary driver of each change. According to the results, the most significant changes that have taken place are:

- Adjustments/increases in process and control documentation for high-risk processes
- Increase in time devoted to walkthroughs to gain and document an understanding of key business processes
- Expansion of scope related to IT general controls

Interestingly, the impact of these changes is even more pronounced when looking at the specific responses of large accelerated filer participants.

### Degree and Source of Changes in SOX Compliance Processes

Base: All respondents

	Extent of Change					Source of Change		
	Extensive	Substantial	Moderate	Minimal	None	Company	Audit firm	No change
Changes/increase in process and control documentation for high-risk processes	9%	26%	31%	23%	11%	50%	40%	21%
Increase in time devoted to “walkthroughs” to gain and document understanding of key business processes	10%	20%	30%	20%	20%	36%	43%	27%
Fresh assessment of extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	6%	16%	22%	19%	37%	40%	15%	45%
Expansion of scope related to IT general controls	6%	15%	24%	25%	30%	38%	31%	36%
Changes/increase in process and control documentation for medium- to low-risk processes	6%	14%	28%	33%	19%	41%	29%	35%

## Degree and Source of Changes in SOX Compliance Processes

Base: Large accelerated filers

	Extent of Change					Source of Change		
	Extensive	Substantial	Moderate	Minimal	None	Company	Audit firm	No change
Changes/increase in process and control documentation for high-risk processes	13%	27%	32%	21%	7%	49%	50%	14%
Increase in time devoted to “walkthroughs” to gain and document understanding of key business processes	10%	26%	30%	20%	14%	36%	58%	16%
Fresh assessment of extent of coverage of, and/or an increase in scope related to, international/remote/non-HQ locations	6%	17%	23%	20%	34%	43%	15%	41%
Expansion of scope related to IT general controls	4%	20%	21%	25%	30%	38%	36%	32%
Changes/increase in process and control documentation for medium- to low-risk processes	8%	16%	26%	33%	17%	42%	35%	30%

## Insights

- By intensifying their scrutiny of high-risk processes, organizations can increase compliance effectiveness and efficiency (by placing more emphasis on where the risks are and investing less time and money on low-risk processes). An emphasis on risk-based SOX compliance programs also aligns with longstanding guidance from the SEC and PCAOB.
- The focus on IT controls and testing (of IT reports) demonstrates risk awareness at a time when IT environments in many organizations are undergoing highly innovative changes – and exposing companies to new risks – related to adoption of social, mobile and cloud technology.
- Other notable compliance program changes relate to the increased concentration on high-risk processes: specifically, assessments of SOX compliance coverage in office locations (other than headquarters) and increased time devoted to walkthroughs. Both activities can help companies gain a firmer grasp on which processes represent the highest risks to maintaining SOX compliance.
- Size and filing status make a difference in several areas of key compliance-program changes. Compared to large accelerated filers, for example, non-accelerated filers found less need to increase time devoted to walkthroughs designed to gain and document a better understanding of key business processes.

## External Auditor Reliance on Work of Others

With companies devoting more time to walkthroughs, documentation and testing of business processes, a related question arises: *To what extent are external auditors relying on this work (which is typically conducted by management and internal audit)?* This has become a critical issue for organizations to assess. Our survey respondents provide different answers depending on whether management or internal audit conducts this work.

Not surprisingly, external auditors continue to rely more heavily on the work of internal auditors to audit low- and moderate-risk processes compared to work performed by other company functions (non-internal audit) and external resources.

### Compared to last year, how has the reliance your external auditor places on documentation, walkthroughs and testing changed when performed by the following?

Base: All respondents

#### Management

	Overall	Large Company	Midsize Company	Small Company
Increased substantially	8%	17%	7%	8%
Increased somewhat	17%	7%	20%	8%
Stayed the same	66%	69%	64%	67%
Decreased somewhat	7%	7%	6%	17%
Decreased substantially	2%	0%	3%	0%

#### Internal Audit

	Overall	Large Company	Midsize Company	Small Company
Increased substantially	10%	10%	11%	8%
Increased somewhat	29%	21%	32%	17%
Stayed the same	55%	66%	52%	50%
Decreased somewhat	5%	0%	4%	25%
Decreased substantially	1%	3%	1%	0%

#### Insights

- The results suggest that over the past year, while external auditors are relying more on the work of the organizations they are auditing with regard to documentation, walkthroughs and testing, they are more likely to increase their reliance on these activities when the work is performed by internal audit rather than management (including the PMO).
- External auditors appear to value the objectivity and competence that internal audit brings to SOX compliance, particularly in light of the PCAOB's recent inspections report in which it found that external auditors' reviews of internal controls need to become more thorough.<sup>1</sup>

<sup>1</sup> For more information, read Protiviti's Flash Report (12/14/2012), "PCAOB Issues Inspection Report Summarizing Deficiencies in Audits of Internal Control over Financial Reporting," available at [www.protiviti.com/en-US/Pages/PCAOB-Updates.aspx](http://www.protiviti.com/en-US/Pages/PCAOB-Updates.aspx).

**For low-risk processes, what percentage of SOX compliance work completed by your organization does your external auditor rely upon?**

Base: All respondents

	Internal Audit		Non-internal Audit		External Resources	
	2013	2012	2013	2012	2013	2012
Greater than 75%	29%	33%	6%	6%	11%	13%
50-75%	12%	18%	4%	8%	5%	9%
20-49%	20%	11%	10%	8%	9%	8%
Up to 19%	12%	11%	20%	18%	16%	14%
None	12%	13%	41%	36%	39%	38%
Don't know	15%	14%	19%	24%	20%	18%

**For moderate-risk processes, what percentage of SOX compliance work completed by your organization does your external auditor rely upon?**

Base: All respondents

	Internal Audit		Non-internal Audit		External Resources	
	2013	2012	2013	2012	2013	2012
Greater than 75%	16%	17%	5%	4%	8%	6%
50-75%	19%	21%	5%	7%	5%	9%
20-49%	21%	19%	10%	10%	10%	11%
Up to 19%	13%	15%	20%	19%	13%	17%
None	15%	13%	43%	36%	43%	38%
Don't know	16%	15%	17%	24%	21%	19%

## Insights

- A majority of our survey respondents are satisfied that external auditors are maximizing their reliance on internal compliance work related to both low- and moderate-risk processes. However, there are some notable year-over-year decreases in the results, specifically among large company respondents (79 percent expressed satisfaction last year with their external audit firm's reliance on the work of others to audit moderate-risk processes, whereas this year the response dropped to 67 percent).
- Recent PCAOB inspections of external audit firms' SOX-related work places growing pressure on these firms to audit internal control over financial reporting in a more thorough manner. External auditors are likely to adhere strictly to the requirements of Auditing Standard No. 5 in evaluating the objectivity and competence of others who are performing SOX-related compliance work, resulting in a continuation of the trend to rely more on the work of a company's internal audit function but less on work performed by other functions or third parties.

## Shifts in SOX Compliance Oversight Responsibility

There are notable year-over-year changes in the results among large company participants. Specifically, there is an apparent shift away from PMOs and toward internal audit to oversee and organize SOX compliance activities.

### Who in your company has primary responsibility for overseeing/organizing SOX compliance efforts?

Base: Large companies

	2013	2012
Internal audit	45%	30%
Project management office	10%	25%
All others	45%	45%

### Insights

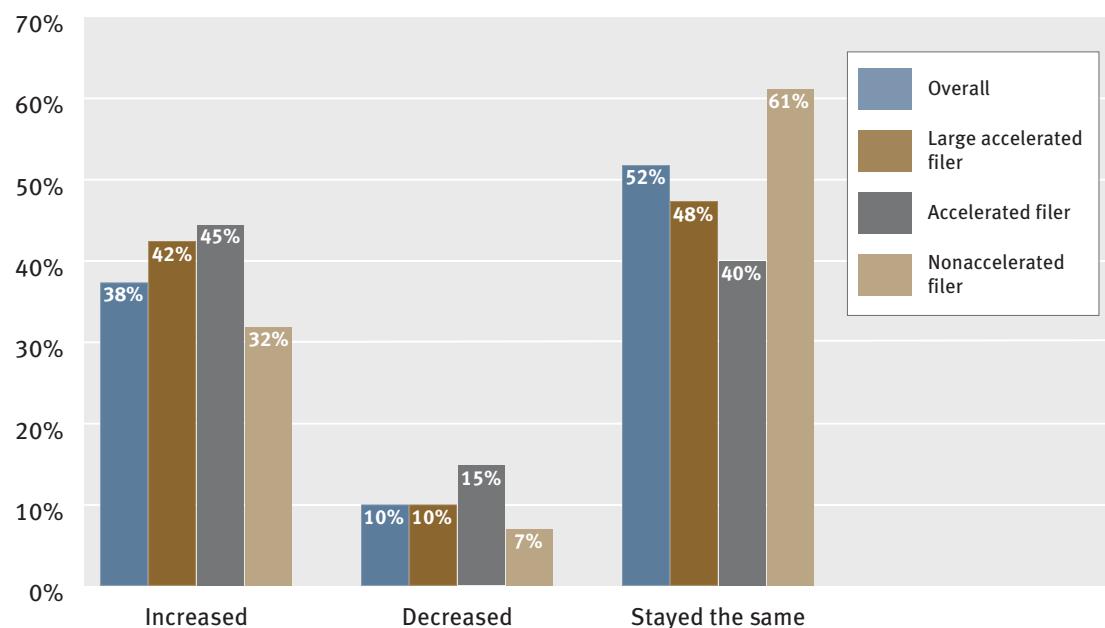
- Given factors including but not limited to recent guidance from the PCAOB, such as the board's inspections report of 2010 audits of internal control over financial reporting, organizations are recognizing that the competency and objectivity of internal auditors is key. It is likely that external auditors will continue to rely less on the work of management, process owners and PMOs relative to internal audit.

## The Cost of Compliance Is Going Up...

SOX compliance costs not only are on the rise, but also appear to be outpacing the rate of inflation in many companies. Moreover, external audit fees are rising, as well.

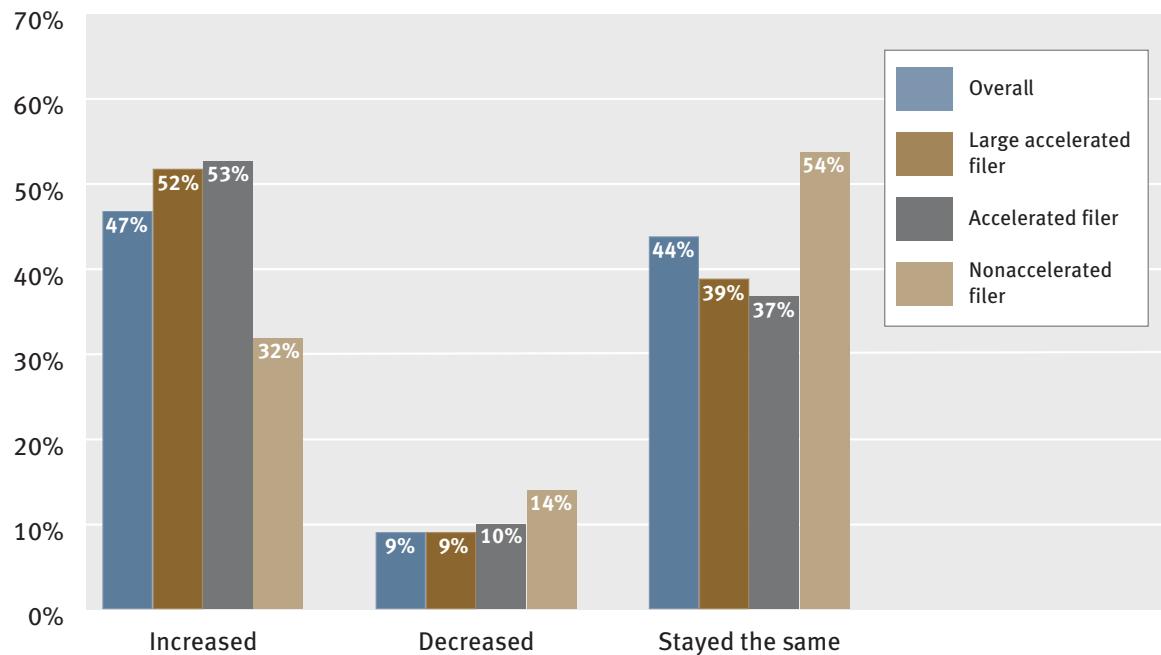
### Changes in SOX-related costs (excluding the integrated audit fees and any associated fees charged by your external audit firm)

Base: All respondents



## Changes in external audit fees

Base: All respondents



### Insights

- Well over one-third of companies (38 percent) reported a year-over-year increase in SOX costs (2012 vs. 2011). And as expected, the numbers are higher (42 percent) for large accelerated filers.
- For 87 percent of companies, the increase was greater than the rate of inflation (i.e., 5 percent or more), and for 42 percent of organizations, the increase was 15 percent or greater.
- For 75 percent of the organizations whose external audit fees rose, the increase was greater than the rate of inflation, and for half it was more than 10 percent.
- As noted earlier, considering recent PCAOB guidance that is directing external auditors to increase the thoroughness of their internal control reviews, it is no surprise to see commensurate increases in external audit fees as well as the overall costs of SOX compliance for organizations.

### ...But Compliance Costs Remain at Manageable Levels

Our survey participants provided their estimated SOX compliance budgets for the coming fiscal year. Not surprisingly, large companies on average plan to spend significantly more than midsize and small companies. That said, on average the costs for SOX compliance are not extraordinarily high relative to the objective of quality financial reporting to investors through improved internal controls. Among the notable findings:

- 65 percent of organizations plan to spend \$500,000 or less on SOX compliance, and 75 percent will spend less than \$1 million.
- SOX compliance costs for large companies are understandably higher, but more than half are budgeting \$1 million or less.
- Among midsize companies, just 13 percent spend more than \$1 million on SOX compliance.

## The SOX Effect on External Audit Fees

While it is difficult to calculate the exact percentage of external audit fees linked to SOX-related work, the majority of our survey respondents believe their company's external audit fees would decrease – significantly, in many cases – if their organizations were exempted from having to comply with Section 404(b).

### If SOX Section 404(b) was not required, to what extent do you believe your external audit fees would change?

Base: All respondents\*

Increase more than 20%	8%
Increase 10-19%	4%
Increase less than 10%	8%
Stay the same	26%
Decrease less than 10%	9%
Decrease 10-19%	19%
Decrease more than 20%	26%

\*Note: Breakdown of responses by company size (large, midsize, small) is similar.

## Compliance Value and Benefits

As is evident in our survey results, it is encouraging to see the improvements organizations have achieved in their internal control structures since SOX Section 404(b) became a requirement:

### How has your internal control over financial reporting structure changed since SOX Section 404(b) was required for your organization?

Base: All respondents

	Overall	Large Accelerated Filer	Accelerated Filer
Significantly improved	26%	32%	20%
Moderately improved	38%	37%	48%
Minimally improved	16%	18%	20%
No change	19%	12%	12%
Moderately weakened	1%	1%	0%

## Insights

- These findings are highly positive. Consider the substantial improvements reported above: More than two out of three large accelerated and accelerated filers have achieved significant or moderate improvements in their internal control structures. This was the intent of legislators in drafting and enacting SOX.

## Strategies to Improve the Control Structure

Respondents also identified a number of ways they expect their SOX compliance strategies to develop and mature over the next year and beyond.

### For your organizationwide SOX compliance activities, which, if any, of the following strategies are you currently employing or planning to employ?

Base: All respondents

	Currently Employing/ Have Employed	Planning to Employ in 2013	Planning to Employ Beyond 2013
Tightening of overall scope	36%	25%	2%
Reduction in the total population of controls	33%	19%	5%
Reduction in number of key controls	32%	20%	6%
Increase in number of automated controls	15%	29%	20%
Decrease in number of manual controls	19%	29%	18%
Increase in number of monitoring controls	20%	30%	8%
Use of continuous monitoring tools or techniques	16%	24%	21%

### Insights

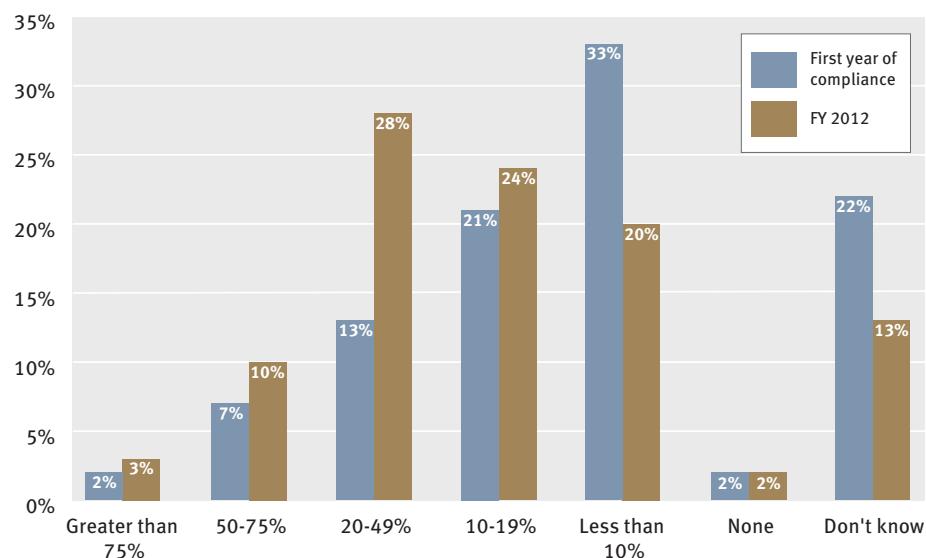
- Many companies remain focused on refining the efficiency of their compliance programs by tightening overall scope and reducing unnecessary controls. As this work tapers off, organizations appear ready to implement additional – and potentially more valuable – refinements, such as increasing the number of automated controls, decreasing manual controls and increasing monitoring controls.
- This type of work, in turn, helps lay the groundwork for an even more potent compliance improvement, and the most frequently identified strategy organizations plan to employ beyond 2013: continuous monitoring tools and techniques.

## Automating Controls

There are significant opportunities for organizations to automate more of their key controls. Given the fact that survey respondents indicated that compliance costs and external auditing fees are rising, automation represents an increasingly valuable efficiency lever.

### As of the last fiscal year, what percentage of your company's total key controls are automated key controls?

Base: All respondents



### To what extent does your organization plan to further automate your company's manual processes and controls?

Base: All respondents

	Overall		Large Company		Midsize Company		Small Company	
	2013	2012	2013	2012	2013	2012	2013	2012
Significant plans to automate a broad range of IT processes and controls	16%	12%	19%	16%	15%	12%	15%	0%
Moderate plans to automate selected IT processes and controls	31%	34%	21%	36%	34%	33%	15%	34%
Minimal plans to automate selected IT processes and controls	43%	37%	41%	33%	43%	39%	46%	31%
No plans to automate any further	10%	17%	19%	15%	8%	16%	24%	35%

## Insights

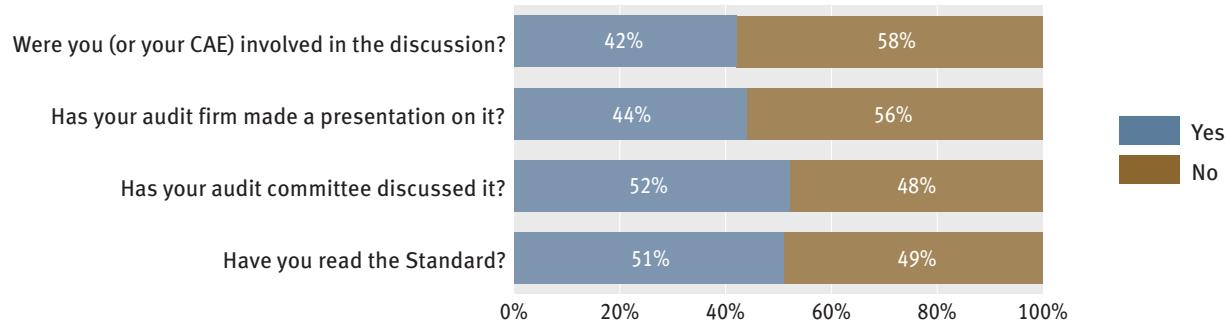
- The results show small but notable year-over-year increases in plans among organizations to automate more IT processes and controls. This is significant in that automating more controls likely represents the “final frontier” in terms of achieving significant process improvements and cost savings in SOX compliance efforts and lays the foundation for continuous monitoring.

## Changing Regulations and Guidance

Our survey findings suggest most organizations are not as informed or as involved as they could be, and should be, with several key regulatory developments.

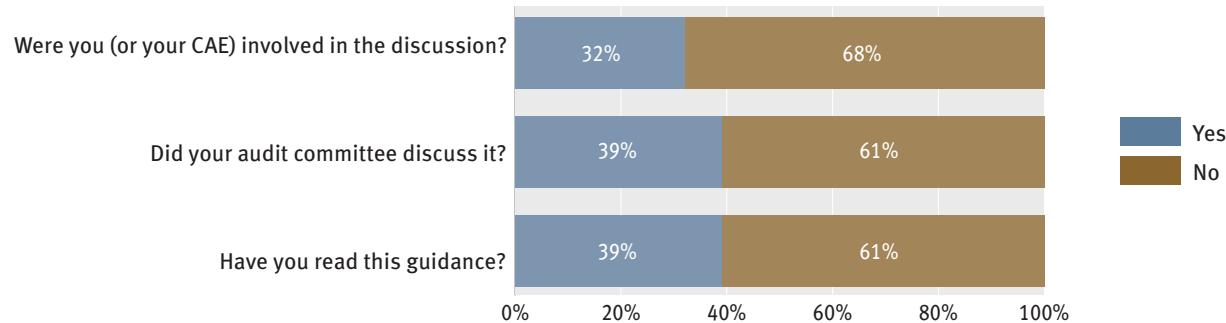
**Auditing Standard 16 – Communications with Audit Committees, which was recently issued by the PCAOB, requires additional matters to be communicated to the audit committee by the external auditor. In connection with AS 16:**

Base: All respondents



**The PCAOB also recently issued Guidance to Audit Committees on the Inspection Process. In connection with this guidance:**

Base: All respondents



**COSO has recently publicized its process to update/revise the 1992 Internal Control Framework.<sup>2</sup> In connection with these revisions and updated framework:**

	Yes	No
Are you aware of the revision process?	66%	34%
Have you read the revised 2012 draft?*	52%	48%

\*If response was "Yes" to previous question

<sup>2</sup> [www.coso.org/documents/COSO%20Release%20March%202013.pdf](http://www.coso.org/documents/COSO%20Release%20March%202013.pdf).

## **Insights**

- AS 16<sup>3</sup> was adopted by the PCAOB in August 2012<sup>4</sup> and approved by the SEC the following December. The standard is intended to foster more constructive and timely dialogue between external auditors and audit committees on significant matters, including SOX. The standard took effect in late 2012, yet a majority of our survey respondents have not been active in discussing or reviewing this topic.
- The PCAOB's guidance referenced above, along with its December 2012 report on its inspections of external audits of internal control over financial reporting, is driving external auditors to intensify their scrutiny of a wide range of internal controls and to be more demanding when relying on the work of others within the organization for purposes of planning the nature, timing and extent of auditing procedures.<sup>5</sup> Surprisingly, a majority of organizations appear to be unfamiliar with this guidance. By understanding the implications of the PCAOB's inspections report, organizations will be better prepared for their external auditors' intensifying scrutiny.
- With regard to the new COSO internal control framework, nearly two-thirds of organizations are aware of this revision process.<sup>6</sup> In terms of when they prefer to adopt the revised COSO framework, our results suggest companies are against early implementation in 2013. Otherwise, the survey response is relatively split as to adoption preference (optional early adoption, 2014 adoption, adoption after 2014 (assuming the option is available), etc.).

## **IN CLOSING**

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Although the SOX Act, in many respects, may seem to be “old news,” SOX compliance programs and processes should remain youthfully agile and ready to change course if public companies are to adhere to the law in an effective and cost-efficient manner. As regulators, providers of ongoing guidance (e.g., COSO) and rapidly changing business conditions have demonstrated, the achievement of sustainable, cost-effective and value-enhancing compliance processes remains an ongoing journey that requires continual vigilance.

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<sup>3</sup> [www.pcaobus.org/Standards/Auditing/Pages/Auditing\\_Standard\\_16.aspx](http://www.pcaobus.org/Standards/Auditing/Pages/Auditing_Standard_16.aspx).

<sup>4</sup> *PCAOB Flash Report*, Aug. 17, 2012, Protiviti: [www.protiviti.com/en-US/Documents/Regulatory-Reports/PCAOB/PCAOB-Flash-Report-Board-Approves-New-Auditor-Communication-Standard.pdf](http://www.protiviti.com/en-US/Documents/Regulatory-Reports/PCAOB/PCAOB-Flash-Report-Board-Approves-New-Auditor-Communication-Standard.pdf).

<sup>5</sup> *PCAOB Flash Report*, Dec. 14, 2012, Protiviti: [www.protiviti.com/en-US/Documents/Regulatory-Reports/PCAOB/PCAOB-Flash-Report-Inspections-Report-121412-Protiviti.pdf](http://www.protiviti.com/en-US/Documents/Regulatory-Reports/PCAOB/PCAOB-Flash-Report-Inspections-Report-121412-Protiviti.pdf).

<sup>6</sup> *Protiviti Flash Report*, Dec. 19, 2011, Protiviti: [www.protiviti.com/en-US/Documents/Regulatory-Reports/General-Business/Protiviti-Flash-Report-COSO-Issues-Exposure-Draft-for-Updated-Internal-Control-Integrated%20Framework.pdf](http://www.protiviti.com/en-US/Documents/Regulatory-Reports/General-Business/Protiviti-Flash-Report-COSO-Issues-Exposure-Draft-for-Updated-Internal-Control-Integrated%20Framework.pdf).

## ABOUT PROTIVITI

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Protiviti ([www.protiviti.com](http://www.protiviti.com)) is a global consulting firm that helps companies solve problems in finance, technology, operations, governance, risk and internal audit. Through our network of more than 70 offices in over 20 countries, we have served more than 35 percent of FORTUNE 1000® and FORTUNE Global 500® companies. We also work with smaller, growing companies, including those looking to go public, as well as with government agencies.

Protiviti is proud to be a Principal Partner of The IIA. More than 700 Protiviti professionals are members of The IIA and are actively involved with local, national and international IIA leaders to provide thought leadership, speakers, best practices, training and other resources that develop and promote the internal audit profession.



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We work with audit executives, management and audit committees at companies of virtually any size, public or private, to assist them with their internal audit activities. This can include starting and running the activity for them on a fully outsourced basis or working with an existing internal audit function to supplement their team when they lack adequate staff or skills. Protiviti professionals have assisted hundreds of companies in establishing first-year Sarbanes-Oxley compliance programs as well as ongoing compliance. We help organizations transition to a process-based approach for financial control compliance, identifying effective ways to appropriately reduce effort through better risk assessment, scoping and use of technology, thus reducing the cost of compliance. Reporting directly to the board, audit committee or management, as desired, we have completed hundreds of discrete, focused financial and internal control reviews and control investigations, either as part of a formal internal audit activity or apart from it.

One of the key features about Protiviti is that we are not an audit/accounting firm, thus there is never an independence issue in the work we do for clients. Protiviti is able to use all of our consultants to work on internal audit projects – this allows us at any time to bring in our best experts in various functional and process areas. In addition, Protiviti can conduct an independent review of a company's internal audit function – such a review is called for every five years under standards from The Institute of Internal Auditors.

Among the services we provide are:

- Internal Audit Outsourcing and Co-Sourcing
- Financial Control and Sarbanes-Oxley Compliance
- Internal Audit Quality Assurance Reviews and Transformation
- Audit Committee Advisory

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## THE AMERICAS

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